

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Retirement Systems of the City of Detroit</u>	County Wayne
Audit Date June 30, 2005	Opinion Date October 13, 2005	Date Accountant Report Submitted To State: December 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

Police and Fire Retirement System for the City of Detroit

**Financial Report
with Supplemental Information
June 30, 2005**

Police and Fire Retirement System for the City of Detroit

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Independent Auditor's Report

The Board of Trustees
Police and Fire Retirement
System for the City of Detroit

We have audited the accompanying statement of plan net assets of the Police and Fire Retirement System for the City of Detroit (the "System") as of June 30, 2005 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2004 financial statements and, in our report dated October 8, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Police and Fire Retirement System for the City of Detroit as of June 30, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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The Board of Trustees
Police and Fire Retirement
System for the City of Detroit

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Police and Fire Retirement System for the City of Detroit's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statement included in other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 13, 2005

Police and Fire Retirement System for the City of Detroit

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required additional information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	Fiscal Year Ended	
	June 30, 2005	June 30, 2004
Total assets	\$ 4,972,247,550	\$ 3,818,936,551
Total liabilities	1,143,292,792	696,416,534
Assets held in trust for pension benefits	\$ 3,828,954,758	\$ 3,122,520,017
Net investment income	\$ 259,868,904	\$ 415,701,183
Contributions:		
Employee	10,430,854	10,318,299
Employer	51,602,596	69,475,202
Employer - Pension obligation certificate proceeds	630,829,189	-
Total contributions	692,862,639	79,793,501
Benefits paid to members and retirees:		
Retiree pension and annuity benefits	208,994,947	200,381,990
Member annuity refunds and withdrawals	33,557,578	47,129,942
Total benefits paid	242,552,525	247,511,932
Benefits paid less than (in excess of) contributions	450,310,114	(167,718,431)
Ratio of benefits paid to contributions	0.4	3.1
Other expenses	3,744,277	3,727,680
Net increase in net assets	\$ 706,434,741	\$ 244,255,072

Police and Fire Retirement System for the City of Detroit

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The Police and Fire Retirement System (PFRS) exists to pay benefits to their members and retirees. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investment income.

Asset Allocation

The PFRS has established asset allocation policies, which are expected to deliver more than enough investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the Retirement Systems of the City of Detroit (the "Systems"). The following is a summary of the asset allocation as of June 30, 2005:

Equities	56.0%
Fixed income	27.5%
Real estate	7.0%
Alternative investments	8.0%
Cash reserves	1.5%

Investment Results

Effective with the fiscal year ended June 30, 2004, PFRS acquired the capability to produce the investment results for the total fund composite on an AIMR compliant time-weighted basis. Investment results for prior periods reflect dollar-weighted returns consistent with the methods utilized by the system's actuaries.

This past year was another year in which PFRS outperformed its actuarially assumed rate of return. The PFRS total fund composite return was 8.2 percent versus its actuarially assumed rate of 7.8 percent. This was the second consecutive year of favorable investment experience following three consecutive years of unfavorable investment experience during which PFRS underperformed its actuarially assumed rate. For the three-year period ended June 30, 2005, the PFRS total fund composite investment return was 9.84 percent, outperforming its objective by 204 basis points.

The PFRS equity composite return was 8.93 percent versus the broad stock market, as measured by the S&P 500 index, which was up 6.32 percent for the year. This board's equity asset mix was underweighted to growth stocks, overweighted to value stocks, and overweighted to mid and small cap stocks. All of these contributed to the outperformance of the equity composite versus the S&P 500. The board's allocation to international stocks also contributed to the outperformance.

Police and Fire Retirement System for the City of Detroit

Management's Discussion and Analysis (Continued)

The PFRS fixed income composite return was 7.23 percent versus the broad fixed income market, as measured by the Lehman Aggregate index, which was up 6.32 percent. In 2001, the board recast its fixed income allocation by giving its fixed income managers the specific mandates of government bonds, corporate bonds, mortgages, convertible bonds, and high yield bonds. The board's fixed income asset mix was overweighted to investment grade corporate bonds and high yield, which added significantly to the outperformance of the fixed income composite versus the broad bond market.

The PFRS real estate composite return was 6.86 percent versus the broad domestic real estate market, as measured by the NCREIF Property Index, which was up 12.04 percent. The PFRS real estate allocation is overweighted to core income producing properties and underweighted to non-core and opportunistic real estate investments, which hurt returns relative to the index.

The PFRS alternative investment composite return was 11.81 percent versus its objective of the S&P 500 plus 5 percent per annum, which returned 11.32 percent. The PFRS alternative investment asset mix is biased in favor of distressed debt and private equity and underweighted to venture capital.

The PFRS cash composite return was 2.94 percent versus three-month U.S. Treasury bills, which returned 2.12 percent. PFRS runs its own money market fund to invest not only the cash needed to pay the benefits and expenses of the system but also to invest idle cash balances, which accumulate in the managed accounts. Relatively low returns from cash dragged down the overall PFRS composite return. Additionally, the City of Detroit elected to issue pension obligation certificates and contribute approximately \$631 million to the retirement system. This sizeable cash balance dragged down the overall investment performance of the system.

This year's total fund investment return is particularly encouraging, as is the outlook for future investment returns. Returns achieved in the public capital markets are highly dependent upon the health of the economy, both in the United States as well as in other countries. Management believes that the outlook for continued global economic growth is good in both the short and long run.

The primary determinant of total fund investment performance over long periods of time is asset allocation. The asset allocation of each fund is built upon the foundation that the obligations of the PFRS to pay the benefits promised to members and retirees are very long-term obligations. Accordingly, the board of trustees must make investment decisions that it believes will be the most beneficial to the retirement system over many years, not just one or two years. For the trailing 10- and 15-year periods, the PFRS has achieved a total portfolio return in excess of its actuarially assumed investment return.

Police and Fire Retirement System for the City of Detroit

Statement of Plan Net Assets June 30, 2005 (with comparative totals for June 30, 2004)

	2005	2004
Assets		
Cash (Note 3)	\$ 9,724,398	\$ 1,259,681
Investments - At fair value (Note 3)	3,754,283,430	3,055,424,485
Accrued investment income	18,066,358	17,039,456
Contributions receivable	61,391,371	69,475,202
Receivables from investment sales	24,587,150	23,507,318
Other accounts receivable	603,557	614,796
Capital assets (Note 1)	460,054	569,142
Cash and investments held as collateral for securities lending (Note 3)	1,103,131,232	651,046,471
Total assets	4,972,247,550	3,818,936,551
Liabilities		
Payables for investment purchases	27,903,499	33,788,157
Claims payable to retirees and beneficiaries	5,899,293	5,669,853
Due to City of Detroit	-	19,000
Other liabilities	6,358,768	5,893,053
Amounts due broker under securities lending agreement (Note 3)	1,103,131,232	651,046,471
Total liabilities	1,143,292,792	696,416,534
Net Assets Held in Trust for Pension Benefits (a schedule of analysis of funding progress is presented in the required supplemental information)	\$ 3,828,954,758	\$ 3,122,520,017

Police and Fire Retirement System for the City of Detroit

Statement of Changes in Plan Net Assets Year Ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

	2005	2004
Additions		
Investment income:		
Interest and dividend income	\$ 128,343,833	\$ 108,037,206
Net appreciation in fair value	140,792,494	317,767,620
Investment expense	(12,581,933)	(12,379,319)
Other income	3,314,510	2,275,676
Net investment income	259,868,904	415,701,183
Contributions:		
Employee	10,430,854	10,318,299
Employer	51,602,596	69,475,202
Employer - Pension obligation certificate proceeds	630,829,189	-
Total additions	952,731,543	495,494,684
Deductions		
Retirees' pension and annuity benefits	208,994,947	200,381,990
Member refunds and withdrawals	33,557,578	47,129,942
General and administrative expenses	3,648,132	3,628,600
Depreciation expense	96,145	99,080
Total deductions	246,296,802	251,239,612
Net Increase in Net Assets Held in Trust for Pension Benefits	706,434,741	244,255,072
Net Assets Held in Trust for Pension Benefits - Beginning of year	3,122,520,017	2,878,264,945
Net Assets Held in Trust for Pension Benefits - End of year	<u><u>\$ 3,828,954,758</u></u>	<u><u>\$ 3,122,520,017</u></u>

Police and Fire Retirement System for the City of Detroit

Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The City of Detroit (the "City") sponsors the contributory single employer retirement plan for the Police and Fire Retirement System for the City of Detroit (the "System"). The System, which is administered by the retirement system's board of trustees, is composed of a defined benefit plan and a defined contribution plan. The plans provide retirement, disability, and survivor benefits to plan members and beneficiaries.

The Police and Fire Retirement System is a separate and independent trust qualified under applicable provisions of the Internal Revenue Code, and is an independent entity (separate and distinct from the employer/plan sponsor) as required by (1) State law and (2) Internal Revenue Code provisions setting forth qualified plan status. The trustees of the plan have a fiduciary obligation and legal liability for any violations of fiduciary duties as independent trustees.

Reporting Entity - The financial statement of the System is also included in the combined financial statements of the City of Detroit as Pension Trust Funds. The assets of the Pension Trust Funds include no securities of or loans to the City or any other related party.

Basis of Accounting - The Police and Fire Retirement System for the City of Detroit's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Capital Assets - Capital assets for the System represents office equipment and furniture. Depreciation expense is calculated by allocating the net cost of the assets over their estimated useful lives.

Police and Fire Retirement System for the City of Detroit

Notes to Financial Statements June 30, 2005

Note 2 - Plan Description and Contribution Information

At June 30, 2005, the membership of the defined benefit plans and the defined contribution plans consisted of the following:

	Defined Benefit Plan	Defined Contribution Plan
Retirees and beneficiaries receiving pension benefits	8,465	1,335
Terminated plan members entitled to but not yet receiving benefits	25	46
Active plan members	4,652	4,195

Plan Description - The System provides retirement benefits, as well as survivor and disability benefits. Employees may receive cost of living adjustments as a percentage of their base amount, pursuant to the collective bargaining agreement in effect at their date of retirement. The obligation to contribute to and maintain the System was established by City Charter and negotiation with the employees' collective bargaining unit.

Contributions - The City's policy is to fund normal costs and amortization of prior service costs. The City is required to contribute at an actuarially determined rate. Administrative costs are financed through investment earnings. The contribution rate for 2004-2005 was 39.25 percent of active annual payroll. Contributions from the employer for the year ended June 30, 2005 totaled \$682,431,785, of which \$630,829,189 resulted from the deposit of proceeds from pension obligation certificates.

Employees are required to make contributions toward annuity savings in the amount of 5 percent of base compensation until eligibility for retirement is reached. Contributions from employees during the year ended June 30, 2005 totaled \$10,430,854.

The contribution requirements of plan members and the City of Detroit are established and may be amended by the boards of trustees in accordance with the City Charter, union contracts, and plan provisions.

Police and Fire Retirement System for the City of Detroit

**Notes to Financial Statements
June 30, 2005**

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The System is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized the investments according to Michigan Public Act 314. The System's deposits and investment policies are in accordance with statutory authority.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the System had \$9,672,771 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Police and Fire Retirement System for the City of Detroit

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment Type	Investment Maturities (in years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. government	\$ 129,475,028	\$ 14,431,714	\$ 75,458,000	\$ 20,558,190	\$ 19,027,124
Mortgage backed	54,371,713	-	270,134	2,174,714	51,926,865
Collateralized mortgage obligations	24,833,936	-	-	-	24,833,936
Corporate	439,208,985	23,656,048	187,021,254	143,788,865	84,742,818
Yankee bonds	12,463,030	-	1,231,416	315,066	10,916,548
Non-U.S. fixed income	31,155,584	3,979,259	15,788,814	8,525,486	2,862,025
Convertible bonds	8,204,662	149,044	1,020,885	-	7,034,733
Treasury bills	3,439,095	3,439,095	-	-	-
Mortgages	19,331,504	-	-	-	19,331,504
Construction loans	62,621,015	51,305,516	11,315,499	-	-
Total	<u>\$ 785,104,552</u>	<u>\$ 96,960,676</u>	<u>\$ 292,106,002</u>	<u>\$ 175,362,321</u>	<u>\$ 220,675,553</u>

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) as rated by S&P are as follows:

Investment Type and Fair Value (\$000)	TSY	AGY	AAA	AA	A
U.S. government	\$ 82,480	\$ 2,844	\$ 43,195	\$ 956	\$ -
Mortgage backed	-	54,372	-	-	-
Collateralized mortgage obligations	-	15,679	9,155	-	-
Corporate	-	479	12,403	19,150	130,774
Yankee bonds	-	-	-	-	3,148
Non-U.S. fixed income	-	-	-	6,384	14,739
Convertible bonds	-	-	885	-	1,829
Treasury bills	-	-	3,439	-	-
Total	<u>\$ 82,480</u>	<u>\$ 73,374</u>	<u>\$ 69,077</u>	<u>\$ 26,490</u>	<u>\$ 150,490</u>

Police and Fire Retirement System for the City of Detroit

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Investment Type and Fair Value (\$000)	BBB	BB	B	CCC & Below	NR
Corporate	\$ 127,786	\$ 52,032	\$ 68,657	\$ 18,424	\$ 9,504
Yankee bonds	6,618	1,757	940	-	-
Non-U.S. fixed income	2,934	3,037	4,061	-	-
Convertible bonds	2,635	753	1,950	-	153
Mortgages	-	-	-	-	19,332
Construction loans	-	-	-	-	62,621
Total	<u>\$ 139,973</u>	<u>\$ 57,579</u>	<u>\$ 75,608</u>	<u>\$ 18,424</u>	<u>\$ 91,610</u>

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system does not restrict the amount of investments in foreign currency. The following securities are subject to foreign currency risk (in \$000):

	Fixed Income	Equity	Derivatives	Cash
Australian Dollar	\$ -	\$ 8,590	\$ -	\$ 642
British Pound Sterling	-	54,535	(3,271)	2,368
Canadian Dollar	-	7,406	9,486	(340)
Danish Krone	-	2,925	-	6
Euro Currency	-	127,323	(11,791)	3,300
Hong Kong Dollar	-	8,304	(1,868)	82
Japanese Yen	6,384	64,868	(11,491)	1,377
Malaysian Ringgit	-	621	-	-
Mexican Nuevo Peso	-	1,892	-	-
New Zealand Dollar	-	3,030	-	1
Norwegian Krone	-	3,248	-	28
Singapore Dollar	-	2,353	(1,216)	268
South Korean Won	-	2,873	-	-
Swedish Krona	-	13,194	(1,385)	364
Swiss Franc	-	25,717	-	679
Thai Baht	-	433	-	-
Total	<u>\$ 6,384</u>	<u>\$ 327,312</u>	<u>\$ (21,536)</u>	<u>\$ 8,775</u>

Police and Fire Retirement System for the City of Detroit

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

The following is a description of the investments by type:

Investment	Amount
Short-term investments	\$ 647,002,385
Stocks	1,814,475,861
Bonds	627,090,459
Mortgage-backed securities	69,754,698
Mortgage and construction loans	81,952,519
Equity interest in real estate	94,035,180
Real estate investment trusts held by custodian	35,450,553
Pooled investments	334,353,218
Private placements	50,168,557
Total	<u>\$ 3,754,283,430</u>

As permitted by State statutes and under the provisions of a securities lending authorization agreement, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. The custodial banks do not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested together with the cash collateral of other lenders in an investment pool. The average duration of this investment pool as of June 30, 2005 and 2004 was 27 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2005 and 2004, the System had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the System as of June 30, 2005 was \$1,103,131,232 and \$1,072,327,690, respectively.

Police and Fire Retirement System for the City of Detroit

Notes to Financial Statements June 30, 2005

Note 4 - Reserves

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of June 30, 2005, the System's reserves have been fully funded as follows:

Reserved for employee contributions	\$ 279,366,940
Reserved for retired employees	2,543,448,718

A statement of changes in plan net assets by reserve is included in the other supplemental information.

Note 5 - Pension Obligation Certificates

In June 2005, the City of Detroit issued \$1,440,000,000 of pension obligation certificates to provide funding for the unfunded actuarially accrued liability (UAAL), which existed at June 30, 2003. Any future UAAL that may arise will continue to be paid by the City, as well as the annual normal cost. The proceeds of the pension obligation certificates were deposited into the System and are accounted for in the Accrued Liability Fund (Pension Obligation Certificate) Reserve. Approximately \$740,000,000 was deposited into the General Employees' Retirement System and approximately \$630,000,000 was deposited into the Police and Fire Retirement System, net of issuance costs and premiums. On an annual basis, funds will be transferred from the accrued liability fund reserve to the pension accumulation reserve. The Accrued Liability Fund was credited with investment earnings commensurate with the overall earnings of the System.

Required Supplemental Information

Police and Fire Retirement System for the City of Detroit

Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/99	\$ 3,668,362,979	\$ 3,274,050,127	\$ (394,312,852)	112.0	\$ 216,049,687	-
06/30/00	3,964,231,470	3,342,123,550	(622,107,920)	118.6	237,741,560	-
06/30/01	3,900,020,703	3,463,248,393	(436,772,310)	112.6	253,297,027	-
06/30/02	3,635,106,581	3,523,446,635	(111,659,946)	103.2	248,663,133	-
06/30/03	3,205,516,657	3,721,593,210	516,076,553	86.1	248,681,461	207.5
06/30/04	3,074,516,589	3,857,493,282	782,976,693	79.7	258,699,581	302.7

Police and Fire Retirement System for the City of Detroit

Required Supplemental Information Schedule of Employer Contributions

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1999	\$ 15,709,799	100
2000	19,972,058	100
2001	14,443,382	100
2002	8,449,645	100
2003	66,843,029	100
2004	69,475,202 *	86
2005	98,842,261 *	52

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, the latest actuarial valuation is as follows:

Valuation date	June 30, 2004
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period **	13 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.8%
Projected salary increases	5.8%-10.8%
Includes inflation at	4.8%
Cost of living adjustments	2.25%

* At June 30, 2005, \$61,391,371 of the annual required contributions noted above was not received by the Police and Fire Retirement System. Of the total amount, \$9,788,775 and \$51,602,596 related to the years ended June 30, 2004 and 2005, respectively. Contributions receivable of the total amount has been recorded. In addition, of the total contribution, \$47,239,665 was funded by transfers from the Accrued Liability Fund Reserve.

** During the year ended June 30, 2005, the amortization period was changed to 20 years.

Other Supplemental Information

Police and Fire Retirement System for the City of Detroit

Description of Funds

Annuity Savings Fund - This fund represents cumulative required and voluntary contributions made by the active employees plus accumulated interest.

Annuity Reserve Fund - Transfers are made from the Annuity Savings Fund into the Annuity Reserve Fund when an employee retires, becomes disabled, or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions.

Both annuity funds are referred to as defined contribution plans.

Market Stabilization Fund - This fund represents designations from the plans' investment income (loss) to be used to cushion the market value adjustments within the other funds. The boards of trustees authorized the creation of this fund, and the reserve amounts are calculated using a three-year average method.

Accrued Liability Reserve Fund - This fund originated during June 2005 when the City issued pension obligation certificates to fund the unfunded actuarial accrued liability that existed at June 30, 2003 (subject UAAL). On an annual basis, the actuary will inform the system of the amount to transfer from the Accrued Liability Reserve to the Pension Accumulation Fund in lieu of contributions from the City for the subject UAAL.

Survivor Benefits Fund - This fund is used to accumulate the PFRS employee and City contributions for certain survivor benefits from which the related benefits are paid.

Pension Accumulation Fund - This fund represents accumulated City contributions to the pension system for the payment of pensions and other benefits to future retirees. Additionally, pre-employment military service credit contributions are captured in this fund.

Pension Reserve Fund - This fund represents funded pension benefits available for retired members and is funded by actuarially determined transfers from the Pension Accumulation Fund.

Police and Fire Retirement System for the City of Detroit

	Annuity Reserves		
	Annuity Savings Fund	Annuity Reserve Fund	Market Stabilization Fund
Additions			
Net investment income (loss)	\$ -	\$ 1,112,452	\$ 23,073,308
Contributions:			
Employee	10,488,239	-	-
Employer	-	-	-
Total additions - Net of investment loss	10,488,239	1,112,452	23,073,308
Deductions			
Retirees' pension and annuity benefits	-	913,595	-
General and administrative expenses	-	-	-
Depreciation expense	-	-	-
Member refunds and withdrawals	33,557,578	-	-
Total deductions	33,557,578	913,595	-
Net Additions (Deductions) - Before transfers	(23,069,339)	198,857	23,073,308
Transfers - Net	(884,399)	(4,379,889)	-
Net Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	(23,953,738)	(4,181,032)	23,073,308
Net Assets Held in Trust for Pension Benefits - Beginning of year	303,320,678	15,410,339	47,993,834
Net Assets Held in Trust for Pension Benefits - End of year	<u>\$279,366,940</u>	<u>\$11,229,307</u>	<u>\$ 71,067,142</u>

Other Supplemental Information
Statement of Changes in Plan Net Assets
Year Ended June 30, 2005
(with comparative totals for the year ended June 30, 2004)

Accrued Liability Reserve Fund	Pension Reserves			Total	
	Survivor Benefits Fund	Pension Accumulation Fund	Pension Reserve Fund	2005	2004
\$ 3,946,861	\$ 1,823,173	\$ 56,682,259	\$ 173,230,851	\$ 259,868,904	\$ 415,701,183
-	-	(57,385)	-	10,430,854	10,318,299
<u>630,829,189</u>	<u>-</u>	<u>51,602,596</u>	<u>-</u>	<u>682,431,785</u>	<u>69,475,202</u>
634,776,050	1,823,173	108,227,470	173,230,851	952,731,543	495,494,684
-	3,930,982	-	204,150,370	208,994,947	200,381,990
-	-	3,648,132	-	3,648,132	3,628,600
-	-	96,145	-	96,145	99,080
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,557,578</u>	<u>47,129,942</u>
<u>-</u>	<u>3,930,982</u>	<u>3,744,277</u>	<u>204,150,370</u>	<u>246,296,802</u>	<u>251,239,612</u>
634,776,050	(2,107,809)	104,483,193	(30,919,519)	706,434,741	244,255,072
<u>(47,239,665)</u>	<u>-</u>	<u>(196,900,527)</u>	<u>249,404,480</u>	<u>-</u>	<u>-</u>
587,536,385	(2,107,809)	(92,417,334)	218,484,961	706,434,741	244,255,072
<u>-</u>	<u>25,266,194</u>	<u>416,794,522</u>	<u>2,313,734,450</u>	<u>3,122,520,017</u>	<u>2,878,264,945</u>
<u>\$587,536,385</u>	<u>\$ 23,158,385</u>	<u>\$ 324,377,188</u>	<u>\$2,532,219,411</u>	<u>\$3,828,954,758</u>	<u>\$3,122,520,017</u>

October 13, 2005

To the Board of Trustees
Police and Fire Retirement System of the City of Detroit
908 Coleman A. Young Municipal Center
Detroit, MI 48226

Dear Board Members:

We recently completed the audit of the basic financial statements of the Police and Fire Retirement System for the year ended June 30, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

TRAVEL REIMBURSEMENT

We commend the System for the segregation of duties among the staff as it relates to the review and approval of travel expenditures, whereby an individual reconciles the travel expenditure separately from the individual who reviews the expenditure. Incorporating these separate levels of review enhances the Systems internal controls as it relates to travel reimbursement.

INVESTMENT FILES AND VALUATION

As noted in the prior year, when reviewing investment activity, the following items came to our attention:

- The System uses consultants on an ongoing basis for certain investments. Part of their duties include performing due diligence and managing the investments thereafter. However, for pooled and private placement investments, the System does not utilize consultants on a regular basis. Therefore, these investments due diligence procedures are either performed by the Trustees or an outside firm is hired specifically to perform due diligence. We have noted that there appear to be no formal policies or procedures that identify the due diligence procedures that were undertaken by consultants, Trustees or outside firms.

Additionally, we noted that it appears additional due diligence is lacking related to large additions to current investments or for those investments whereby the General Retirement System may currently hold an interest and the Police and Fire Retirement System has decided to invest at a later date. We encourage the System to develop formal due diligence policies and procedures that would encompass treatment for new investments, additions related to existing investments and credit worthiness measures. Additionally, a checklist should be used by the Trustees when they perform due diligence. This process should thoroughly document the reasons the System has decided to make a particular investment.

INVESTMENT FILES AND VALUATION (CONTINUED)

- The System should also strive to receive financial statements in a timely manner to monitor investments. During the audit, we noted that for some investments financial statements were not on file. They then had to be requested from individual entities as copies had not been received as a regular course of business. We suggest that the System request annual financial statements on a regular basis and review them in order to monitor what is recorded and ensure any differences or discrepancies are investigated.

FIXED ASSETS

During our testing of fixed assets, we noted the following items:

- As mentioned in the previous year's audit, the System currently maintains all fixed assets in a Microsoft Access database. The database is not capable of computing depreciation or accumulated depreciation. As a result this calculation needs to be performed independent of the fixed asset system. Additionally, the System does not appear to have a minimum capitalization threshold, allowing for several small dollar items to be included in the fixed asset listing. We recommend establishing a capitalization threshold and obtaining a more sophisticated fixed asset system.
- Upon our review of fixed asset additions, it appears there is no purchase policy in place documenting when formal bidding procedures are required. Although the expenditures do go to the Board for approval, we recommend implementing a policy establishing a threshold when bidding procedures should be implemented.

We would like to thank the Police and Fire Retirement System's personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Beth A. Bialy



Wendy N. Trumbull